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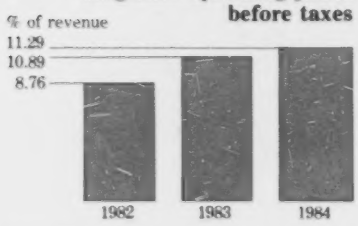
Pre-tax profits grow to 11.29%

For second year in a row, operating profits as a percentage of revenue are up, according to MPA/Price Waterhouse financial survey. The biggest contributor to revenue is once again advertising, at 51.91 percent. **19**

Magazine operating profit before taxes



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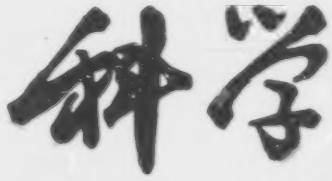

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UPDATE

Ad sales expected to remain flat

Lethargic ad sales caused by sluggish economy

New York City—Publishers of consumer magazines are calling the second half advertising situation everything from "mixed" to "terrible." Their colleagues in the business press, though somewhat more optimistic, also see the second half as flatter than had been expected at the start of the year.

The gloomy mood among some consumer publishers reflects continued slow ad sales, after a less than stellar first half. Although ad revenues were up about 8 percent for the first six months due to rate increases, pages were showing a slight decline compared to last year, Publishers Information Bureau figures indicated. And, while industry analysts never expected consumer magazines to match or exceed the 8.5 percent page gain and 16.5 percent revenue gain logged in 1984—a year boosted by the Olympics, a presidential election and a heated economy—the statistics in the first half did not even support earlier predictions of modest growth for 1985.

For instance, McCann-Erickson's Robert Coen, senior vice president and director of forecasting, revised his advertising outlook figures downward in July. He now projects ad pages to be flat or down slightly for all of 1985, instead of showing the 2 percent to 4 percent growth he had forecast at the start of the year. Coen estimates that ad revenues will finish up about 8 percent for 1985 because of rate hikes and premi-

CONTINUED ON PAGE 25

Revised 1985 ad revenue outlook

	% Over '84	$(000,000)
Magazines	8%	$ 5,330
National newspapers	7	3,300
Network television	3	8,780
Spot television	8	6,235
Cable TV	25	585
Radio	9	1,655
Direct mail	11	15,320
Other national	9	12,625
Total national	8.3	53,830
Total local	10.2	42,010
Grand total	9.1%	$95,840

Source: Robert Coen, senior vice president, director of forecasting McCann-Erickson

Up—but not to expectations: *Media forecaster Robert Coen scaled back his '85 advertising projections. In total, advertisers will spend 9.1 percent more this year than last—down slightly from Coen's original 9.7 percent. Magazine revenues will be up 8 instead of 10 percent.*

Pre-tax profits grow to 11.29%

Advertising edges out circulation as largest contributor to revenue, MPA/Price Waterhouse survey reveals

New York City—Average magazine pre-tax operating profits rose to 11.29 percent in 1984, up from 10.89 percent in 1983, according to the annual Magazine Publishers Association/Price Waterhouse Financial Survey. The increase marks the second year in a row that operating profits as a percentage of revenues have risen.

Assuming a corporate tax rate of 46 percent, net income for the 172 magazines responding to the survey was 6.1 percent, up slightly from the 5.88 percent reported by 1983's 154 participants.

Magazines' total costs dropped again in 1984 to 88.71 percent of total revenues, making the higher operating profits possible. In 1983, total costs registered 89.11 percent, and in 1982 they were 91.24 percent. Costs as a percent of sales were shaved in the areas of circulation, administration and manufacturing and distribution, the survey shows, whereas advertising, editorial and other operational costs all rose during 1984.

Advertising regained its place as the largest contributor to total revenue in 1984. According to the survey, net ad receipts accounted for 51.91 percent of revenue, whereas circulation income contributed 48.09 percent. That

Magazine pre-tax operating profits (losses) 1984:

As a % of total revenues, by circulation category

Less than 250,000	250,000-500,000	500,000-750,000	750,000-1,000,000	1,000,000-2,000,000	Over 2,000,000	Weekly/biweekly	Not-for-profit
6.58%	(3.78%)	5.48%	12.54%	9.03%	13.33%	14.24%	10.12%

As a % of total revenues, by annual ad revenues

Under $1 million	$1-2 million	$2-4 million	$4-10 million	$10-20 million	Over $20 million	Not-for-profit
5.80%	(10.88%)	(2.55%)	3.70%	11.47%	12.83%	10.12%

Source: MPA/Price Waterhouse

When categorized by circulation, *weekly/biweekly magazines showed the highest pre-tax operating profit last year. Magazines with circulations of 250,000 to 500,000 showed an operating loss, but a slightly smaller one than the 4.05 percent loss that category showed in 1983's survey. When categorized by annual ad revenues, magazines with over $20 million in ad sales had the highest operating profit. Those with between $1 million and $2 million in ad revenue showed an even worse operating loss than 1983's loss of 8.45 percent.*

reverses last year's outcome, when circulation revenues, at 50.13 percent, were higher than ad revenues for the first time.

It should be noted that the revenue recorded from advertising is net revenue--that is, after agency discounts are deducted—while circulation revenue is gross revenue, without any discounts taken out.

In terms of operating profits by circulation category, the category with the highest profit, 14.24 percent, was the weekly/biweekly group, regaining the lead it lost last year to magazines with greater than two million circulation. That category posted the second highest operating profit this year, at 13.33 percent. In 1983, the two-million group led with a 13.26 percent profit, while the weekly/biweekly group showed a profit of 13.02 percent.

As usual, the category with the poorest operating profit was the 250,000 to 500,000 group, registering a 3.78 percent operating loss in 1984. That was a slight improvement over 1983's performance, however, when the group logged a 4.05 percent loss.

When magazines were broken out in terms of annual advertising revenues, those with more than $20 million in ad sales had the highest operating profit at 12.83 percent of total revenue. This category was followed by the $10 million to $20 million group, which posted an 11.47 percent operating profit—down from 12.77 percent in 1983.

At the losing end of the scale was the group having $1 million to $2 million in ad revenue. It posted a 10.88 percent operating loss in 1984—worse than its performance in 1983, when losses for the group averaged 8.45 percent.□

Summary of responses to MPA financial surveys

	% of total magazine revenues		
	1982	1983	1984
Revenue			
Net advertising revenues	50.19%	49.87%	51.91%
Gross subscription revenues	33.32	33.70	32.97
Gross single-copy revenues	16.49	16.43	15.12
Total magazine revenues	100.00	100.00	100.00
Advertising expenses	8.80	9.15	9.47
Circulation expenses	24.74	25.07	24.83
Editorial costs	8.24	8.40	8.66
Manufacturing and distribution expenses	39.51	36.90	36.55
Other operational costs	3.37	3.27	3.31
Administrative costs	6.58	6.32	5.89
Total magazine costs	91.24	89.11	88.71
Operating profit (before taxes)	8.76	10.89	11.29
Total number of magazines reporting	192	154	172

Source: MPA/Price Waterhouse

Costs were shaved *and operating profits rose for magazines last year, according to the MPA/Price Waterhouse survey. Advertising, which played second fiddle to circulation in 1983, regained its long-held place as the largest contributor to total revenue.*

Bob Birnbaum, consultant, dies

Robert B. Birnbaum, publishing management and marketing consultant died in June at the age of 63. Birnbaum was a FOLIO: columnist on electronic publishing, a contributing feature writer and a frequent speaker at The Folio:Show and Folio Publishing Week.

Among the many accomplishments in his 38-year publishing career were planning the *American Baby* cable television show; starting up two of Lebhar-Friedman's business publica-

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Advertisers are budgeting cautiously for late '85

um pricing on insertions in regional and special demographic editions. The 8 percent figure, however, is lower than his earlier forecast of 10 percent growth.

Soft economy is culprit

The unexpectedly lackluster economy is cited by analysts and publishers as the main reason for the slowdown in advertising. Contributing to that is the falloff in certain boom categories, such as computers and utilities.

In addition, many publishers and agency executives said that concern over the Federal budget deficit, the flood of imports due to the high dollar and apprehension over the tax reform plan were forcing advertisers into a defensive posture. "The general attitude is 'play it close to the vest,' " says one agency executive.

Asked about the advertising picture for third quarter '85, Wes Silk, publisher of *Better Homes & Gardens*, says flat out, "It's terrible." And the fourth quarter outlook, he adds, "is not any better."

Edward Atorino, first vice president and media analyst at Smith Barney, Harris Upham, is projecting a 9 percent growth in magazine ad revenues for the year, which, he adds, "at the moment may be optimistic." The forecast is revised from one of 10 percent ad growth he made at the start of the year. Atorino says the second half could conceivably be better than the first half.

Alan Waxenberg, publisher of *Redbook*, says he is viewing the second half with "cautious optimism." October's and November's pages will be up slightly from last year, and overall *Redbook*'s second half should be better than the disappointing first half.

Confusion seems to reign among pubishers, advertising executives and analysts over what advertisers will do in late 1985. "No one is saying cut the budget, but no one's really spending either," remarks David Lehmkuhl, senior vice president and group media director at N. W. Ayer.

At Doyle Dane Bernbach, senior vice president-director of media planning Paul Zuckerman says advertisers

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are being more conservative in their spending and using media differently now. They are advertising to "protect their business" rather than doing "investment spending," as they did last year. "What I'm saying is, it's tight," Zuckerman states.

Two categories of advertising—computers and cigarettes—have been cited often as contributing heavily to magazines' sluggish advertising results. Cigarette advertising in PIB-measured magazines did indeed look poor in the first five months of the year. Total pages were down 20 percent from the '84 period, and revenue was off 15.5 percent. Computer advertising, too, was off in PIB magazines. Pages through May were down 17.4 percent, revenue down a slight 1.2 percent.

However, Adscope, a research firm that tracks all computer print advertising, reports something of a rebound in May and June for the computer category, leaving first half results much less disappointing than many may have thought. For the top 20 "end user" magazines, such as *Byte* and *PC*, computer ad pages for January through June '85 were up 22 percent, to 15,145 pages, from first half '84, according to Adscope. Even in general business publications—a group said to be hard hit by a pullout in computer advertising—pages for the first half '85 totaled 4,068, up 24.4 percent from the same period last year. Sheila Clark, vice president of marketing at Adscope, says she expects the good news to repeat itself in the fourth quarter.

Jack Patten, publisher of *Business Week*, which was hurt in the first half by a drop in high-tech advertising, also looks for a rebound in the fourth quarter: "Buyers have been waiting for new technology. A lot of PC's are in warehouses. Once people regroup, we'll see some good advertising in the fourth quarter."

Outlook in business press

The advertising outlook in the business press is a bit tougher to assess. No trade group collects page and revenue statistics, and the picture shifts depending on the industry being served. Overall, McCann-Erickson's Coen expects the healthy page gains of late 1984 and early '85 for business magazines to trail off somewhat in the second half of the year. A spot check with leading business publishers seems to confirm that.

"We've done reasonably well for the first half, but I expect the second half will be a little slower," reports Thomas Dempsey, chairman of Penton/IPC, which owns more than 20 magazines covering, among others, the construction and materials industries. Penton's first half saw page increases of 4 percent and revenue increases of 13 percent, according to Dempsey.

John Abely, president of Technical Publishing, calls the second half outlook a definitive "mixed." Running down some of the categories served by Technical's publications, he says medical magazines are up; those serving manufacturing segments are flat; data processing and high-tech magazines are down in the third quarter with a potential rebound in the fourth; and construction-related magazines are up.

Magazines serving the retail sector are showing poor performance, report several publishers. At Gralla Publications, Vice President Frank Rizzo says the advertising in most of their magazines is holding up well, except in retailing, where lack of consumer confidence in the economy has caused retail sales to sputter and advertising to drop. He sees the softness there continuing for the balance of the year.

In looking forward to next year, Lawrence Fornasieri, president and chief executive of Chilton Co., sums up the common preliminary outlook for 1986: "A repeat of '85," he says.□

Selecting photos: Keep it simple

Clutter should be avoided in photos, as well as in articles, advises editor

New York City—The trick in selecting editorial photographs is to find the shot that conveys the desired concept quickly. For this reason, a good rule of thumb is to look for simplicity and lack of clutter in photos.

"A photograph with less is always better than a photograph with more," advises John Boykin, currently associate editor of *The Stanford Magazine* and lecturer for the Stanford Publishing Course; and who has worked as a photographer, graphic designer and writer. "You should say what you want to say and shut up. That's as true for photography as it is for writing," he said, speaking in a Folio Publishing Week seminar that dealt with what editors need to know about selecting and taking photographs.

According to Boykin, the famous *National Lampoon* cover that used a

Give b&w photo lab specific orders

When black-and-white film is brought to a lab for developing, it is important that the lab clerk be given clear and specific instructions as to what should be done with the film, advises editor/photographer John Boykin.

If undeveloped film is being brought in, the clerk should be told the ASA rating used in taking the photos. If prints are to be made, the clerk should be told, for example, whether areas of the print must be dodged or burned to make them lighter or darker, or if contrast on the photo needs to be decreased or increased.

In choosing a photo from a contact sheet, an editor shouldn't worry when the best image is a bit over- or underexposed, Boykin notes. All of the images

Photo by Vincent Colabella

A photo lab should make test prints to determine a photo's best printing exposure, advises John Boykin.

printers pay $300 to $400 an hour for labor on wet presses, so they don't like people sitting around. It's unfair to be chronically late at the printer."

•Try to avoid "creeping increases." A publisher should be aware that more and more regionals or split runs will result in increases. The printer will want to recover slow-down costs in binding and make-ready.

•Don't expect your printer to act as your warehouse. Your printer shouldn't be expected to keep your film and back issues for an unreasonable time, he said. Paolucci believes one or two months is reasonable. Printers try to be accommodating, but the publisher shouldn't take advantage of them.□

More employees relocated

Publishing and printing industry has biggest jump in employee moves

New York City—The number of employees relocated by publishing and printing companies in 1984 jumped by 153 percent, the largest increase in any industry group, according to results of a recent survey sponsored by Merrill Lynch Relocation Management, Inc. The 17 publishing and printing companies surveyed relocated an average of 119 employees in 1984, as compared with an average of only 47 employees in 1983.

Personnel allocation tool

Among all industries surveyed, the average number of relocations rose 34 percent, from 140 in 1983 to 188 in 1984. The increase in transfer activity is attributed by Merrill Lynch to the recent strength of the United States economy and to the use of relocation as a tool for management development and efficient allocation of personnel. The particularly substantial increase in publishing and printing employee relocations, says Challen Armstrong, manager of marketing and communications at Merrill Lynch, was due to growth in the publishing field during 1984. "Businesses that did well had more relocations," she notes.

Respondents to the survey were selected from among firms on *Fortune*'s list of the top 750 industrial companies and from firms on the magazine's lists of top nonindustrial companies. Hagen Marketing Research Inc., which conducted the survey for Merrill Lynch, eventually polled 604 companies by telephone, 17 of which were involved in publishing or printing.

Costs revealed

The survey found that, on average, publishing and printing companies spent $28,430 on each transferred employee who was a homeowner for expenses such as shipping household goods, trips, sale of the old home and finding a new home. The average publisher or printer also spent an additional $6,000 per employee for such subsidy payments as cost of living allowances, mortgage interest differential allowances, mortgage assistance and tax assistance.

The average expenditure on home sale, home finding and transportation expenses among all industries was $27,250. For subsidy payments, the across the board average was $8,040.

Generally, companies that relocated the most employees offered them more benefits and spent more money per move. For example, companies which relocated less than 25 employees spent an average of only $23,470 per employee for home sale, home finding and transportation. Firms which moved 500 or more employees spent an average of $35,470 per employee for the same kinds of expenses.

Other survey findings:

•Asked about their expectations for 1985, one publishing and printing firm said it would probably have more transfers, four expected fewer transfers and 12 believed they would have no change.

•At printing and publishing companies, 29 percent of all transfers involved homeowners. The average among all industries was 57 percent.

•For transferred employees who are renters, one publishing and printing company reimbursed for differentials in rents from one area to another, 16 paid lease termination penalties, 10 took care of finder's fees, five covered security deposits and eight paid legal fees. None of the publishing and printing companies gave cash relocation allowances or duplicate rent payments. One company did not reimburse any renter expenses.□

Company policies for disposing of relocated employees' former living quarters

	Publishing/printing		All companies	
	No. of companies	(%)	No. of companies	(%)
Company offers to purchase the employee's home and bear some or all of the sale expenses.	24	(4)	97	(16)
Company employs an outside relocation firm or bank to purchase the employee's home and bears some or all of home sales expenses.	9	(53)	374	(62)
The employee must arrange for the sale of the home, but is reimbursed for some or all of the home sale expenses and may or may not be guaranteed against loss or sale.	4	(24)	121	(20)
The employee is not given any assistance or reimbursement.	—	—	12	(2)

Source: Merrill Lynch Relocation Management, Inc.

***Some form of assistance** was offered to relocated homeowner employees by every publishing and printing company surveyed. Only 6 percent failed to reimburse at least some expenses of their relocated renter employees.*

Disturbing forces in single-copy sales

Decreases in newsstand sales for so many categories of magazines should alert publishers to the need for an in-depth review of single-copy sales

There are some disturbing forces at play in the newsstand sales area of the publishing business. This becomes clearly evident when one reviews the single-copy trends reported by the Audit Bureau of Circulations. With so many categories of magazines showing decreases in newsstand sales, we must ask ourselves some probing questions:

•Do we truly understand what motivates newsstand customers to buy magazines?

•Are multiple newsstand purchases within magazine categories, each month, a thing of the past?

•Just how cover-price sensitive has the newsstand buyer become?

•Do we know what classification of retailer is showing the largest decline in magazine sales this past year by magazine category?

•Has the newsstand point-of-sale display for "bread and butter" publications deteriorated to the point that they are no longer receiving the proper display positions to maintain their historical sales volumes?

•Are national distributor/publisher field personnel so consumed with gathering, reporting and analyzing sales data and/or completing retailer distributions (supposedly to compensate for poor wholesaler EDP allocations) that we have all lost sight of the point of sale merchandising aspects involved in single-copy sales?

•With more retailers scanning magazine sales, they have become increasingly aware that a very small group of publications generates the bulk of their single-copy sales revenue. With the rest of the titles contributing disproportionately to their problems of return handling and RDA collections, does this mean that we can expect further reductions in the number of titles on chain authorized lists?

Additional points that I feel must be addressed:

•RDA payments are climbing at an alarming rate as consultants and wholesalers assist the retailers in their collection efforts. Publishers must expect some kind of return for this expense in the area of performance, on behalf of their publications, from wholesalers and retailers alike.

•An enormous amount of effort is expended by national distributors and publishers to secure magazine authorizations from chain store buyers, and yet all too often we find wholesalers that will not ship the authorized product to the stores.

Discussions between national distributors and wholesalers have occurred. But I think that those two groups and publishers and retailers will have to participate in frank and honest discussions before we can start to restore some of the basic principles of newsstand merchandising of magazines—the principles that can produce unit sales levels that are profitable.

Strive for better efficiencies

•Paper costs are climbing at a rapid rate, with no light in sight at the end of the tunnel. The cost of newsstand unsolds is starting to erode seriously the publisher's single-copy sales profitability.

There is a limit to how much of this increased cost can be passed on to the magazine newsstand buyer. Therefore, we must strive for better efficiencies in the area of return percentages without decreasing our unit sales levels. This is no easy task, but one that can be accomplished if we learn and understand everything about what happens to our product from the time it arrives at the wholesalers warehouse to the time it is off-sale.

And speaking of research, think of what could happen if we *all* pooled efforts and resources, came up with a well-researched strategy—even for just the top 10 percent of retail outlets—and implemented that plan. Yes, it would cost money. But in the context of the current situation, what have we got to lose?□

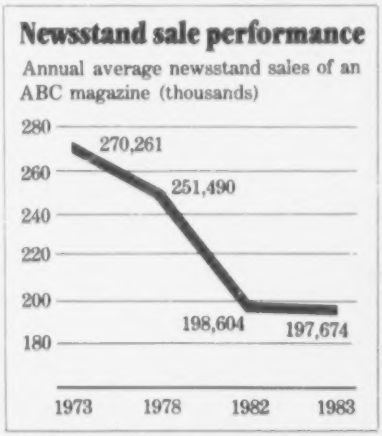

Chart based on statistics supplied by Curtis Circulation Company

***A disturbing downward trend** in newsstand sales is illustrated above. The totals show the average number of issues sold by a magazine that reports to the ABC for each year shown. They were calculated by dividing the total newsstand sales by the number of ABC magazines reporting that year.*

Nigel P. Heaton is vice president, circulation marketing development, Petersen Publishing Company.